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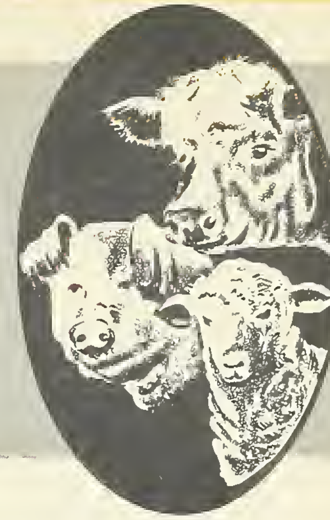

LIVESTOCK AND MEATS
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THE COMMON MARKET'S IMPACT UPON U.S. LIVESTOCK AND MEAT PRODUCT EXPORTS

Introduction

This is a report of a visit in September-October 1960, to the European Economic Community (Common Market) countries by a representative of the Livestock and Meat Products Division of the U.S. Department of Agriculture's Foreign Agricultural Service.

The purpose of the report is to assist in appraising the impact of the EEC Commission's currently proposed Common Agricultural policy on the U.S. livestock and meat product industry.

Summary

The following points were developed in discussions with EEC representatives in Brussels, and with various government and industry officials in the Common Market countries:

(1) The EEC Commission's proposals for a Common Agricultural policy for livestock and meat products are currently being considered by the Council of Ministers, so the impact of such developments on U.S. trade cannot be completely determined at this time.

(2) Both production of livestock products and competition from other products are increasing in nearly all EEC countries. In other words the present trend in individual countries is toward self-sufficiency. Present plans for the formation of the community may reinforce and accelerate this trend. This factor will prove very important in influencing the extent of any future reduction in EEC imports from the United States.

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(3) EEC, government, and trade officials throughout the Common Market area gave the impression that EEC Agricultural Policy, as now proposed, will definitely not be established as soon as generally expected. In fact, many persons contacted felt it might take as long as 10 or 15 years to reach full agreement on a Common Livestock and Meat Agricultural policy.

(4) The EEC countries themselves seemed to be in strong disagreement as to the solution of many problems concerning the establishment of a Common Agricultural policy for livestock and meat products.

(5) Nearly all persons interviewed felt that U.S. exports of lard and beef variety meat would be the most seriously affected by the proposed EEC policy. One important reason given was that neither item could stand the planned, rather steep increase in duty without a substantial export drop.

(6) U.S. trade in tallow, hides and skins, and pork livers are not expected to be seriously affected, at least in the near future. The reasons: (a) tallow duty is being increased only from zero to 2 percent ad valorem; (b) there is no duty on hides and skins and (c) France's strong demand for pork liver cannot be met by other EEC countries.

(7) Although the EEC Commission seems to be proposing a policy that will eventually lead to self-sufficiency for nearly all livestock products, it is emphasized that this situation will not be realized for many years. In any event, however, the United States should strongly oppose any duty increase or other barriers designed to limit exports of livestock and meat products to the Common Market area.

PROPOSED AGRICULTURAL POLICY FOR MEAT

The aim of the proposed EEC policy for meat is to remove discrimination between producers and between consumers inside the Common Market area. At the present time the timetable set up for the fulfillment of this aim is January 1, 1964 for beef and July 1, 1967 for pork.

Meat imports ultimately will be largely controlled by the level of the common duties on imports from outside the market; however, as a further safeguard minimum import prices will be fixed for the various classes of meat. In the case of beef, whenever the price for imported beef plus the custom duty falls below the minimum import price, the difference will be charged as a levy or equalization fee. In view of the special conditions in the frozen beef market, a system of import certificates will be introduced (quotas) and the issuance of these certificates will be suspended whenever the aims of the agricultural policy are endangered.

Protection from the outside on pork will also include a levy or equalization fee to compensate for any difference in the price of feed grain prices inside and outside the Common Market.

Plans call for the formation of prices inside the market to be free but in addition to the measures already mentioned, it is expected that in some instances it may be necessary to take certain quantities of product off the market and store them temporarily to insure regularity of supply.

The Commission for the European Economic Community believes that for beef, trade within the community can be completely freed before the beginning of 1964, and has proposed an accelerated annual reduction of tariffs by 25 percent starting on January 1, 1961.

With regard to trade in beef with non-member countries, an effort will be made to coordinate bilateral contracts so that they expire in 1963. Plans call for the common external tariff to be in force by January 1, 1964 and from the beginning of 1962 the external tariffs of member states are to be gradually changed until they reach it. In addition, member governments will from the start of 1961 fix minimum import prices which should be uniform by the beginning of 1964.

The levy or equalization fee system for pork relative to trade within the community will be introduced sometime between 1961 and 1963 and will be based on the difference in feed costs; at the same time an import duty is to be applied which will gradually be removed. For trade with countries outside the community, a system of variable levies on pork imports is to be introduced on January 1, 1961 which, until the beginning of 1964, will be fixed on the basis of the difference between the price on the domestic market and the world market. After January 1, 1964 the levies will be related to price differences between feed grain within and outside the EEC. From the beginning of 1961 a customs duty will also be set to take into account those differences in production conditions which are not due to feed costs. As a still further safeguard, minimum import prices will be fixed from January 1, 1961.

Factors in the proposed EEC policy that will tend to limit imports of U.S. beef and pork items

A. Increase in duty. The following table illustrates the present tariffs in Common Market countries compared with the proposed new EEC tariff:

Table I.--Proposed Common Market tariff compared with duties in individual countries for livestock products

Commodity	Present rate					Proposed EEC External Rate
	Benelux 1/	W.Germany	France	Italy	Average 2/	
Lard	0	3/ 4/ 10	32	20	10	20
Tallow, inedible	4/ 0	0	20	4/ 0	--	2
Hog grease	4/ 0	0	32	0	1	4
Variety meats	4/ 10-12	4/ 5-10	15-20	11	5	20
Fatback	4/ 12	4/ 10	40	22	10	22

1/ Belgium, Netherlands, and Luxembourg. 2/ Approximate weighted average based on 1959 trade. 3/ Duty applicable to bulk of U.S. trade in this item. 4/ Major U.S. markets at present.

B. Equalization fees which will be based on the beef price in the EEC versus the world price for beef items, and the EEC feed grain price versus the world feed grain price for pork items. The fees may be implemented by minimum import or gate prices.

C. Quotas on frozen beef imports which will be put into effect by the EEC whenever considered necessary to protect its interests.

EEC officials in Belgium were asked if factors similar to B and C listed above might possibly be applied to animal fat imports. The answer to this question was that present plans called for a duty increase only. The duty for lard would be increased from an average of 10 percent to 20 percent and on tallow from zero to 2 percent.

These officials also said that imports of U.S. lard would probably decline even if the duty increase was not put into effect. They indicated that the EEC itself would, in the near future, be self-sufficient in lard and that increased competition from other fats (vegetable oils) would continue to reduce the necessity for importing lard into the EEC area. As for tallow, it was thought that this market would remain fairly stable in the near future since EEC would gain nothing by limiting imports. However, it was pointed out that over an extended period, the expected increase in EEC tallow production, combined with increased competition from detergents, would result in a sharp drop in U.S. trade.

U.S.-EEC LIVESTOCK AND MEAT PRODUCT TRADE

(Commodity background information)

General: The EEC is a large importer of pork. During 1959 net imports totaled 159 million pounds (including variety meats). France and the Netherlands were net exporters but West Germany, Italy, and Belgium-Luxembourg were all net importers. In 1959 the EEC provided a market for 79 percent of the fresh and frozen variety meats exported from the United States; 7 percent of the lard; 38 percent of the salted and cured pork; 46 percent of the inedible tallow; and 70 percent of other inedible animal fats (mainly hog fats).

Variety meats: The proposed EEC import duty of 20 percent on fresh and frozen variety meats (bovine and swine species) represents a sharp increase from the present weighted average duty of 4.7 percent. U.S. exports of these commodities to EEC amounted to about $15 million in 1959.

Lard: The Common Market is now a net exporter of lard. Only West Germany is a substantial net importer, taking 64 million pounds in 1959. Italy's net imports of 12 million pounds in 1959 were the highest in recent years.

Within the market, France and the Netherlands are the leading competitors of the United States in supplying the other EEC countries. French lard exports have been steadily expanding. The Dutch lard trade includes a considerable amount of U.S. hog grease which is reprocessed and exported as lard--mainly to countries outside the EEC. The only sizable lard market for the U.S. within the EEC market has been West Germany. Because of increased supplies in neighboring countries and increased self-sufficiency in West Germany, this market has been erratic but substantial in years when U.S. lard has been competitively priced. Most observers think that the proposed EEC duty of 20 percent would virtually eliminate the United States from West German lard markets. Even with the present duty of 10 percent U.S. exporters will face increased pressure from France and the Netherlands as the duty on lard from these countries will gradually be reduced to zero.

Hog greases: The proposed EEC duty for lard and other rendered pig fat for industrial uses is 4 percent. If used in edible products, it is listed at 20 percent. The present duty averages only 1 percent. Since the bulk of U.S. trade in this commodity is with the Netherlands where it is reprocessed and exported as lard to countries other than EEC, any duty paid on entry would be reimbursed at time of reexport. For this reason the impact of the duty increase probably will not seriously affect U.S. grease exports to the Netherlands.

Other pork products: Increased duties on a number of other pork products are contemplated. The rate for salted fatback will become 22 percent compared with the current West Germany rate of 10 percent and the Benelux duty of 12 percent. U.S. exports of fatback and other cured pork to the 6 countries in 1959 totaled $612,000. Trade sources indicated during the study that a 22 percent duty on fatback would be an insurmountable trade barrier for the United States.

Tallow: In 1959 U.S. tallow exports to EEC countries totaled 606 million pounds with a dollar value of about 44 million dollars. Tallow exports to EEC countries in 1959 accounted for 46 percent of total U.S. tallow exports. The most important market in the EEC is Italy, followed by the Netherlands, West Germany and Belgium. The only EEC country imposing a duty on tallow is France which has a duty of 20 percent. Trade sources in all EEC countries think the proposed 2 percent EEC duty will have little effect on U.S. trade.

Hides and skins: The Common Market countries purchased a total of 1.3 million cattle hides and calf and kip skins from the United States in 1959. Most important customers were West Germany and Italy. Total U.S. exports of hides and skins during 1959 amounted to 6.0 million pieces. U.S. exports of hides and skins to the EEC area are expected to remain duty-free under the new agricultural policy; therefore, no change is expected in the volume of U.S. trade at present. The United States is currently importing a considerable amount of leather goods from Common Market countries which are, in many instances, manufactured from U.S. hides and skins.

COUNTRY INFORMATION

Belgium: Belgium imports one-third of its food supply. However, with the exception of tallow it is nearly self-sufficient in livestock and meat products. In 1959 the United States exported about 45 million pounds of tallow and greases to Belgium, together with relatively insignificant quantities of variety meats, cattle hides and skins, and sausage casings.

The trend in Belgium is towards an even greater approach to self-sufficiency for livestock and meat products. Many Belgian observers seem to think that this goal will be reached relatively soon.

Tallow importers in Belgium feel that any further restrictions on tallow, no matter how slight, would have a serious adverse effect on Belgian imports of tallow from the U.S. They point out that any duty increase, combined with the present increased competition from synthetic detergents, and the expected gain in Belgium production, would practically cut off U.S. tallow trade entirely.

However, an analysis of information obtained from Belgian Government officials, and all segments of the tallow industry indicates that current Common Market policy will not seriously limit U.S. tallow exports to Belgium. Hides and skins trade is also expected to continue, at least at present levels.

France: The third modernization plan established by France in 1957 to run through 1961 stresses the policy of a shift towards increased livestock production and exports of livestock and meat products. The price support system for livestock and meat products is one of intervention prices.

Under its beef price support program the French government has not been able in the past to find enough storage space for government price support purchases. As for pork products, other than livers, French government officials now feel that France is compelled to export.

Most persons interviewed feel that U.S. exports of tallow and pork livers will hold up fairly well under the proposed EEC policy. The demand for U.S. pork livers is considered strong enough to offset the proposed increase in duty for livers. Tallow exports are also expected to be only moderately affected by the slight increase in tallow duty as proposed by the EEC. On the other hand, the rather insignificant U.S. trade in other livestock products will probably be shut off completely.

West Germany: West Germany is currently a market for U.S. variety meats, lard, fat back, tallow, sausage casings, hides and skins, and mohair.

At present livestock production in Germany is encouraged by providing liberal grain import quotas. Prices are controlled by government purchases of meat in the domestic market during periods of seasonal surplus and reselling these surpluses at a later date when supplies are smaller. Prices are also controlled by government regulations of imports.

Most observers in West Germany agree that lard will be most seriously affected by the proposed EEC policy. In nearly all instances it was indicated that the duty increase alone would be sufficient to curtail drastically or even terminate U.S. lard trade with West Germany. Competition from other fats will also tend to limit trade in lard imports.

U.S. exports of variety meats will also be affected by EEC policy, but in the short run and not to the same extent as lard. However, it was pointed out frequently that the trend in West Germany towards self-sufficiency will eventually seriously affect the importation of all livestock and meat products into West Germany. As for tallow, the demand is expected to continue fairly high in the near future; but in the long run increased domestic productivity and competition from detergents will have a serious adverse effect on imports.

Italy: Italy is expected to liberalize the importation of beef and pork; however, this action is not likely to result in any substantial gain in U.S. beef and pork trade to this area. Some gain is expected in Italian imports from Argentina and various European suppliers.

The United States currently exports sizable quantities of tallow and hides and skins to Italy. This trade is not expected to be seriously affected by EEC policy. In fact, since tallow consumption both in soap manufacturing and in feed is on the increase, a slight gain in trade may be expected soon.

Trade in U.S. hides and skins is also expected to remain at current levels; if U.S. prices decline it might even increase somewhat.

Trade officials in Italy have indicated that strong promotion work relative to tallow and hides would be a factor in any gain in U.S. trade. However, they feel that these would be the only products of the U.S. livestock industry that could be affected by promotional work.

The Netherlands: The Netherlands is a large importer of U.S. tallow and grease, variety meats, and hides and skins. It also buys U.S. hog casings, mohair, cured and fresh pork items, and some lard.

Since a large percentage of livestock items are reshipped, the general impression seems to be that the proposed EEC policy will not have an immediate serious effect on U.S. trade.

Dutch officials point out that there is no duty assessment on items transshipped, and that demand for items currently used in the Dutch domestic market will continue strong.

However, information developed during the study indicates that the variety meat trade will be seriously affected, since much of these imports are used for Dutch domestic consumption.

The trend toward self-sufficiency and increased competition from similar products is expected eventually to adversely affect all livestock and meat imports to the Netherlands.

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